USDA, Farm Service Agency
Columbia, Missouri

GUARANTEED NEWS

Volume No.2 May 2003

Soldiers and Sailors Civil Relief Act (SSCRA) of 1940

SSCRA Provisions

The following are relief provisions that could most likely affect financial institutions:

- **Interest Rates**: Under the SSCRA, service members can cap the interest rates at 6 percent on all obligations that were entered into before beginning active duty. Obligations include credit cards, mortgages, and non-federally guaranteed student loans. In order to invoke the 6 percent cap, military members must write the lender requesting relief and provide a copy of current military orders. In addition, service members must demonstrate that active duty materially affects their ability to pay. The cap is lifted a short time after active duty ends and the rate reverts to the rate in effect prior to the cap.

- **Mortgages**: A lender may not foreclose on a mortgage, if the obligation originated prior to entry into active duty and the service member's ability to pay is materially affected by military service.

Guaranteed lenders are advised that servicing actions taken in accordance with the SSCRA Act will not jeopardize their rights under the loan guarantee.

Secured Creditor Environmental Insurance Coverage

These days environmental liability (EL) can be a threat to almost anyone. EL insurance is an effective tool for minimizing the risks associated with EL's.

While there are a wide range of scenarios that potentially create an EL exposure, some of the more common are leaking underground storage tanks, toxic air emissions, contamination resulting from wastewater discharged into a river or other body of water, and contamination coming from any kind of waste material that seeps into the soil or groundwater. EL coverage has evolved to include: on and off-site cleanup; bodily injury and property damage liability; legal defense costs; and business interruption losses.

Secured creditors environmental insurance.
Many lending institutions are requiring environmental insurance as a part of the loan approval process. This policy provides EL coverage if a bank repossesses property that contains some type of environmental problem. These policies provide no value to the borrower, although the borrower pays the premium as part of the loan transaction.

Is EL Insurance Right for Your Institution?

An increase in EL claims, both in frequency and scope, has proven that EL creates a potentially huge risk that requires a closer look by ***lenders***.

Subordination or Guaranteed Loan?

Is the direct loan subordination or a guaranteed operating loan line of credit loan (OL/LOC) better for your institution?

Situation: Farmer needs $300,000 annual operating loan. Machinery valued at $170,000. Lender requested a $300,000 subordination at 7% interest with a 1st lien on crops and a 1st lien on machinery. Borrower had a crop failure. For example purposes, there is no equity in machinery or real estate.

What was the lender's loss?

$300,000 @ 7% = $21,000 year interest accrual

"Subordination Example"

Loan		$	300,000
Crop Income	-	$	150,000
Interest	+	$	21,000
Value of liquidated machinery $170,000 X 70%	-	$	119,000
Lender Subordination Loss		$	52,000

$31,000 principal loss and $21,000 interest loss

"Guaranteed OL Line of Credit Example"

Loan		$	300,000
Crop Income	-	$	150,000
Interest	+	$	21,000
Unpaid debt		$	171,000
90% Loss Claim Payment	-	$	153,900
Lender Guaranteed Loan Loss		$	17,100

No loss of principal and lender still earned $3,900 interest income = 1.3% return on a $300,000 loan.

In summary, which has the most risk (OL/LOC or subordination) for your institution?

Common Argument: The borrower has to pay a $2,700 guarantee loan closing fee.

Answer: Yes, there is a fee, but spread the fee over the length of the guaranteed 5 year OL/LOC loan. ($300,000 X 90% X 1% = $2,700 guar fee)

$2,700 1% guar fee ÷ 5 years = $540 / year
$540 ÷ $300,000 loan = .18 % yearly cost

Test for Credit

Issue: Lender B applies for an FSA guaranteed loan to refinance Lender A's existing guaranteed loan. Borrower has requested that Lender A lower its interest rate on the existing FSA guaranteed loan. Lender A refused to lower the interest rate. Borrower shopped around for other credit and found that Lender B would provide a lower interest rate, but required an FSA guaranteed loan.

Answer: Loan application from Lender B will be rejected as the loan applicant does not meet the basic 2-FLP Par 108 J – "Test for Credit" loan eligibility requirement. The refinancing reason must be for some other legitimate authorized loan purpose other than to just lower the interest rate. We realize that a lower interest rate from Lender B will lower the borrower's payment and improve repayment capacity, but usually the borrower's cash flow already reflects a feasible plan at Lender A's existing guaranteed loan higher interest rate.

However: If Lender B is providing other credit needs that are essential to the farming operation that Lender A won't loan for, then an application can be approved for Lender B to take over the entire financing needs of the borrower.

"Bookmark" the MO Guaranteed Lender Website:

http://www.fsa.usda.gov/mo/lenders.htm

Federal and State Income Tax Forms

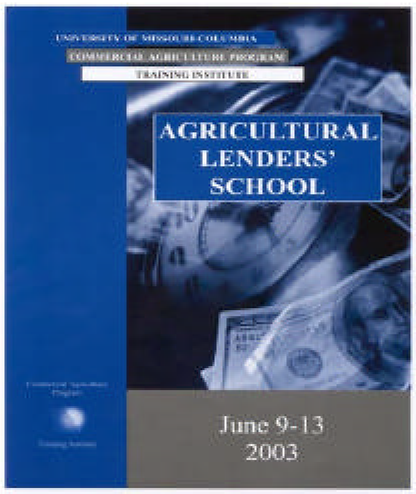
Having trouble getting a copy of the borrower's Federal and/or State Income Tax Records? Obtain income tax records directly from IRS by having the borrower execute the following forms:

Federal: Form 4506, "Request for Copy of Transcript of Tax Form."

State: Form 1937, "Request for Photocopy of Missouri Income Tax Return."

MU Agricultural Lenders’ School

June 9-13, 2003



Program:

The University of Missouri Commercial Agriculture Program announces an intensive **Agricultural Lenders' School** to be held starting Monday June 9^{th} through June 13^{th}, 2003. The Agricultural Lenders' School offers a unique opportunity for lenders to learn both the detailed mechanics of agricultural credit analysis as well as to learn how the changing structure of agriculture will likely affect their businesses and their careers.

A supportive environment of like-minded professionals learning together in small teams make this school fun as well as challenging.

Target audience includes professionals in the agricultural lending industry who have:

- Solid agricultural background or knowledge of agriculture production systems
- College degree in Ag/Finance/Business or appropriate experience
- Working knowledge of their institution's lending program

Lenders' School graduate will be able to:

- Conduct a focused interview with potential clients and compile information which best summarizes the business and owners' credit worthiness
- Understand how to structure a client's credit for greatest success
- Complete a loan analysis presentation about a client's business and character
- Understand how to integrate the balance sheet, income statement, and cash flow statement to analyze summary ratios for the business
- Understand the issues involved in conducting and preparing a lien search, credit report, financing statement, and security agreements

Main Topics Include:

- U.S. Farm Situation
- Ratio Analysis
- Analyzing Integrated Financial Statements
- Borrower vs. Lender Objectives
- Legal Review
- Emerging Issues in Agricultural Finance
- Completing the Loan
- Interviewing the Client
- Servicing Issues Specific to Agriculture

Location: The Agricultural Lender's School will be held on the campus of the University of Missouri.

Contact / Website:

Joe Horner (573) 882-9339, hornerj@missouri.edu

http://agebb.missouri.edu/commag/lenderschool

2-FLP Handbook Amendment 13

Handbook 2-FLP “Guaranteed Loan Making and Servicing” was amended on February 25, 2003. The amendment explains the Agency’s requirements for loan restructuring actions. The latest amendment is available to view or download at:

http://www.fsa.usda.gov/dafl/guaranteed.htm

Missouri State FSA Office
601 Business Loop 70 W
Parkade Center, Suite 225
Columbia, MO 65203

Missouri State Office Contacts:

Tim Kelley – State Executive Director

Dan Gieseke - Farm Loan Chief **Email: daniel.gieseke@mo.usda.gov**

Jim Harms - State Farm Loan Specialist **Email: james.harms@mo.usda.gov**

601 Business Loop 70 W
Parkade Center, Suite 225
Columbia, MO 65203
Tel # (573) 876-0980
Fax # (573) 876-0935

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, or age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal agency that administers compliance with this law is the Federal Trade Commission, Equal Credit Opportunity, Washington, DC 20580.

If you believe that you have been discriminated against for any of the reasons stated above, you may file a complaint with the Director, Office of Civil Rights, United States Department of Agriculture, Room 326-W, Whitten Building, 1400 Independence Avenue S.W., Washington, DC 20250-9410.